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of water supply, limited capacity, suspension during the winter months, underestimate of cost, imperfect construction, frequent and costly interruptions from floods and freshets, and, most important of all, lack of ability to reach markets not served by water courses. At the same time, the railroads were steadily increasing in efficiency, furnishing an all-year service, were flexible and expansible, and the people were gradually being convinced that railroads would prove "near as cheap as canals." The struggle was short and sharp, the less efficient agency gave way, and thereafter the life of the canal was at the mercy of the railroad. The Morris Canal is of use to the Lehigh Valley Railroad only because of its terminal facilities and its water rights. The announced policy of the Reading was to use the Schuylkill Canal as a "dripping pan" to catch the railroad overflow. Unfortunately for the canal, the railroad has preferred to check the overflow by enlarging the primary reservoir.

The author sees no hope for the Morris Canal because of the difficulties of its location, but he does discern possibilities of the resuscitation of the other three. The justification for the reconstruction of these lateral lines can never be finally demonstrated except by experiment. It is, therefore, for each locality to determine whether it will assume the risk. The Congress of the United States should decline to engage in the speculative venture.

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FRANK HAIGH DIXON.

*Accounts—Their Construction and Interpretation.* By WILLIAM MORSE COLE, Assistant Professor of Accounting in Harvard University. (Boston: Houghton, Mifflin Company, 1908. Pp. 345, vi. \$2.)

This book, which is designed as a text-book for university instruction, is divided into two parts. Part i, bears the title of *The Principles of Bookkeeping*, and part ii that of *The Principles of Accounting*. Part i is elementary and would have little or no place in the volume except for the fact that the average college man is not conversant with the elementary technique of an office. In other words, the first part presents what is commonplace to

the six-weeks-at-evening-school clerk, while the second part is a treatise which engages the theorems of finance and administration as premises to the philosophy of accounting. The two subjects are as remote as is the office boy from the business manager.

It is the second part that makes the volume worth while. The underlying principles and distinctions employed are best suggested by reference to such chapter titles as *The Distinction Between Capital and Revenue*, *The General Principles of Depreciation*, *The General Characteristics and Interpretation of the Balance Sheet*, *The Relation of Principle and Interest in Valuation*, *The General Principles of Capitalization*. Concrete application of principles of accounting to different types of business is found in such chapters as *Some General Principles Illustrated in Railroad Accounting*, *Some General Principles Illustrated in Bank Accounting*. There are chapters dealing with special subjects, beside the ones mentioned, including *Trusts*, *Insurance and Life Tenures*, *Factories*, and *Municipalities*. Applications of general elementary principles are also made to such special topics as commercial discounts, proprietorship profits, reorganization, and consolidations. The last chapter in the book discusses the general principles governing the auditing of accounts. Six appendices are included in the contents, all of which relate to bookkeeping or the introductory portion of the text. Of these, the most useful to the accountant is the last, dealing with the mathematical formulæ of accounting.

Generally speaking, the principles stated and the conclusions reached are those supported by the best accounting authorities. In this the author has rendered a service by bringing together in a single volume which may be used for purposes of instruction, the premises for sound reasoning concerning a wide range of administrative problems, the data for the solution of which must be obtained through accounts.

If criticism is to be offered, it would be that he has been somewhat too conventional. For example, following the usual method of bookkeepers, he has divided accounts into those which would be stated in the "balance sheet," and those which would be stated in the "income account." Close thinking concerning a large and involved business requires that four distinct relations be recognized, viz: (1) relations of asset and liability, a view of which is

obtained in a "balance sheet," or an instantaneous picture of legal relations of proprietorship as at the time of reporting; (2) relations of operation, a view of which is obtained in an earning and expense account, or a graphic picture which shows cost and income as the result of management; (3) relations of profit or loss which combine with the net results of management all the charges and contingencies of business for which the management may not be responsible, due in the main to the plan of capitalization to accident or extraneous events; and (4) relations of distribution with the resultant net surplus or deficit to be reflected in the balance sheet.

If the accountant does not make these distinctions either the summary of accounts must be recast by those on whom falls responsibility for the exercise of business judgment, or the benefits of such analysis will be lost. The first relation is recognized by the author; the second lays the foundation for administrative and cost accounting; the third is important as a guide to judgment with respect to capitalization, and for the purpose of indicating the need for reserves to cover risk; the fourth is important as showing the results of action taken in distribution to investors.

The disposition to follow somewhat too closely a practice which has grown out of small businesses where the proprietor did his own analyzing of results and to apply this to large affairs in which the officer, manager, trustee or stockholder does not have the time to analyze or the contact to fully understand, is a fault common to accountants. In following the books on accountancy for guide to practice in the modern field of business, or for instruction, strict adherence to convention may be self-limiting and may cause the student to overlook phases of the great problem of business organization and administration which accounting is designed to illuminate.

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